GOVERNMENT OF INDIA
FINANCE
LOK SABHA

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Will the Minister of FINANCE be pleased to state:

(a) Whether investors are losing heavily on high profile public issues;

(b) if so, the main reasons therefor;

(c) whether the promoters and merchant bankers misuse book building route to raise resources;

(d) if so, whether SEBI is going to scrap book building system which is being manipulated by promoters and merchant bankers;

(e) whether National Association of Small Investors hasrequested the Government to take urgent steps in regard to book building system; and

(f) if so, the steps taken or being taken by the Government in this regard.

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (BALASAHEB VIKHE PATIL)

(a),(b) (c) & (d) : The Government and the market regulator, the Securities and Exchange Board of India (SEBI) are committed to promoting better investor awareness of the risk-return trade-offs in capital market instruments and in improving protection of investors. In this context Government constantly reviews relevant Acts, rules and regulations.

SEBI has strengthened entry norms to provide that IPOs of issue size upto 5 times the pre-issue networth shall be allowed only if the company has track record of profitability and networth as specified in the SEBI Guidelines; others can make IPOs only through the book building route, in which case 60% of the issue size shall be allocated to `Qualified Institutional Buyers` (QIBs). IPOs and public issues by listed companies of more than 5 times the pre-issue networth shall be allowed only through the book building route, with 60% of the issue size allocated to QIBs. The lock in provisions applicable in respect of initial public offers have also been rationalised.

Further, all companies making public or rights issue of debt instruments have to obtain credit rating. The appraising agency has to bring in the required contribution before the opening of the issue.

(e) & (f) : The Government has received suggestions from Investors` Associations on various issues related to capital markets. Actions with regard to the book building system has been taken as indicated above.